

Shepherd Tri-Township Fire Department

Financial Statements

November 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Shepherd Tri-Township Fire Department	County Isabella
Audit Date 11/30/05	Opinion Date 1/11/06	Date Accountant Report Submitted to State: 3/28/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

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LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Roslund, Prestage & Company, P.C.			
Street Address 308 Gratiot Avenue	City Alma	State MI	ZIP 48801
Accountant Signature 		Date 3/28/06	

Shepherd Tri-Township Fire Department
Financial Statements
November 30, 2005

Table of Contents	Page Number
Independent Auditor's Report	
Fund Financial Statements:	
Balance Sheet – Governmental Funds	1
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	2
Notes to the Financial Statements	3 - 8
Required Supplemental Information	
Budgetary Comparison Schedule	9
Government Auditing Standards Report	10 - 11

Independent Auditor's Report

Shepherd Tri-Township Fire Department
Isabella County, Michigan

We have audited the accompanying financial statements of each major fund of the Shepherd Tri-Township Fire Department (the Department) as of and for the year ended November 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Department prepared these financial statements using the minimum accounting practices prescribed by the Michigan Department of Treasury to demonstrate compliance with the State's accounting and budget laws, which practices differ from accounting principles generally accepted in the United States of America. The differences in presentation allowed by the State and that of accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of the Department as of November 30, 2005.

However, in our opinion, the financial statements presented do present fairly, in all material respects, the minimum presentation allowed by the State of Michigan for each of its major funds for the Department as of and for the year ended November 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 11, 2006 on our consideration of the Department's internal control structure over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The budgetary comparison information on page 9 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.

Certified Public Accountants

January 11, 2006

Shepherd Tri-Township Fire Department
Balance Sheet
Governmental Funds
November 30, 2005

	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$139,099
Investments	20,648
Prepaid expenses	<u>1,521</u>
Total assets	<u><u>\$161,268</u></u>
Fund balances	
Unreserved	<u>\$161,268</u>
Total fund balances	<u>161,268</u>
Total liabilities and fund balances	<u><u>\$161,268</u></u>

See accompanying notes to financial statements

Shepherd Tri-Township Fire Department
Statement Of Revenues, Expenditures
And Changes In Fund Balances
Governmental Fund
Year Ended November 30, 2005

	General Fund
Revenues	
Charges for services	\$81,153
Contribution from local units	146,415
Interest	3,140
Gain on investment	1,260
Other revenues	1,355
	<hr/>
Total revenues	233,323
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Expenditures	
Public Safety	
Building and grounds	1,884
Computer software support	1,000
Gas and fuel	5,464
Insurance	32,228
Miscellaneous	1,525
Professional services	3,614
Repair and maintenance	19,635
Salaries and payroll taxes	102,198
Supplies	10,690
Small equipment	13,839
Training	6,805
Uniforms	9,332
Utilities	8,241
	<hr/>
Total expenditures	216,455
	<hr/>
Excess of revenues over (under) expenditures	16,868
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Fund balance - beginning of year	144,400
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Fund balance - end of year	\$161,268
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See accompanying notes to financial statements

Shepherd Tri-Township Fire Department
Notes To The Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of Shepherd Tri-Township Fire Department (the Department) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units, except as described below. The following is a summary of the significant accounting policies used by the Department.

Reporting Entity

The Department is governed by a Board consisting of eight members and provides services to four local units of government. The accompanying financial statements present only the primary government as the Department does not have any component units.

Joint Venture

The Department is a result of a joint venture entered into by the Village of Shepherd, Chippewa Township, Lincoln Township, and Coe Township and provides fire and rescue services to residents of these and other local areas. The participants provide annual funding for its operations.

The local units' interest in Shepherd Tri-Township Fire Department is determined by the average of the ratios of taxable values and of population figures on each local unit.

For the Shepherd Tri-Township Fire Department year ended November 30, 2005, Village of Shepherd, Chippewa Township, Lincoln Township and Coe Township's interests in Shepherd Tri-Township Fire Department, based on the formula discussed above, is 14%, 44%, 23%, and 19%, respectively.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments sets forth the required financial reporting formats for local governments in accordance with generally accepted accounting principles. The Local Audit and Finance Division of the Michigan Department of Treasury is responsible for overseeing local unit compliance. Per the Michigan Committee on Governmental Accounting and Auditing Statement No. 7, issued by the State Treasurer, omission of the Management's Discussion and analysis, the Government-Wide Statements and/or Infrastructure Reporting will not result in any sanctions or remediation. As such, the Department has elected to omit these sections of the GASB 34 reporting format.

Shepherd Tri-Township Fire Department
Notes To The Financial Statements

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Department reports the following major governmental funds:

The General Fund is the Department's primary operating fund. It accounts for all financial resources of the Department, except those required to be accounted for in another fund.

Budgets and Budgetary Accounting

An annual budget is adopted by the Department for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the line item level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

The Department does not maintain a formalized encumbrance accounting system.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments

The Department's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories and Prepaid Expenditures

Inventories, which are immaterial in amount, are not recognized as an asset in these financial statements. Inventories are recorded as expenditures at the time of purchase in the governmental fund type. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

Shepherd Tri-Township Fire Department
Notes To The Financial Statements

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual budgets are adopted for the general fund. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended November 30, 2005, the Department did not incur expenditures in excess of the amounts appropriated as shown on page 9 of this report.

Shepherd Tri-Township Fire Department
Notes To The Financial Statements

NOTE 3 – DETAIL NOTES

Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorized the Department to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Department is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Department has designated one bank for the deposit of Department funds. The investment policy adopted by the Department in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State Statutory authority as listed above.

The Department's deposits and investment policy are in accordance with statutory authority.

At November 30, 2005, the carrying amount of the Department's deposits and investments was \$159,747 as follows:

Cash and cash equivalents	\$139,099
Investments	20,648
Total	\$159,747

At year end, the carrying amount of the Department's cash deposits and investments was \$159,747 and the bank balance was \$168,478. Of the bank balance, \$124,556 was covered by federal depository insurance and \$43,922 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Department believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Department evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Shepherd Tri-Township Fire Department
Notes To The Financial Statements

Investments

Interest Rate Risk. As described in Note 1, state law limits the maturity of investments in commercial paper to not more than 270 days. The Department does not have a formal investment policy that further limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits the type of investments for which the Department may invest its available reserves. The Department has no investment policy that would further limit its investment choices. As of November 30, 2005, the Department's investment in the RVS Balanced Fund, Class A mutual fund was rated one star by Morningstar Ratings.

Concentration of Credit Risk. The Department places no limits on the amount they may invest in any one issuer. The Department did not have more than 5% of its investments in any one issuer during the current fiscal year.

The Department's investments held at November 30, 2005 are as follows:

Investment	Carrying Value	Market Value
RVS Balanced Fund, Class A	\$20,648	\$20,648

Capital Assets

Capital assets of the primary government for the current year are as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Building	\$89,390	-	-	\$89,390
Equipment	7,500	-	-	7,500
Inland Marine	145,800	-	-	145,800
Technology	4,500	-	-	4,500
Vehicles	1,543,000	-	-	1,543,000
Sub-totals	\$1,790,190	-	-	\$1,790,190

This listing of capital assets was prepared by the Mid-America Appraisal Company for the Department and was not tested for accuracy or completeness by the auditors.

Shepherd Tri-Township Fire Department
Notes To The Financial Statements

Contributions from Local Units

The main source of revenue for the Department consists of contributions from local units. This source of revenue is derived from funds contributed by the Village of Shepherd, Chippewa Township, Lincoln Township and Coe Township, the members of the joint venture, and is intended to cover overhead and to fund future equipment replacements. Contributions from local units for the year totaled \$146,415.

Charges for Services

Another source of revenue for the Department is derived from charges for services. This revenue source consists of fees charged per incident, where each township is charged a predetermined fee for fire and rescue runs in order to cover the expenses of that run. Charges for services for the year totaled \$81,153.

NOTE 4 - OTHER INFORMATION

Risk Management

The Department is a member of a self insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. The purpose of the association is to administer a risk management fund which protects members with loss protection for general and auto liability, motor vehicle physical damage and property. Contributions are applied to the procurement reinsurance, risk management, underwriting, payment of claims, establishments of loss reserves and other related expenses.

A member's loss contribution account is charged or credited according to the member's actual loss experience; no obligation is credited for another member's losses. If contributions are in excess of actual expenses and reserves, future contributions are decreased. Should any member have more losses paid on their behalf than contributions covering such losses, credit is extended within the association joint loss fund; such a deficit is repaid by the member in future contributions. The Department's coverage limits are between \$2,000,000 and \$4,000,000 for liability, and between \$10,000 and \$2,000,000 for property, bond, automobile, inland marine and crime.

Related Party Transactions

The Department has entered into various transactions with Grim Printing. A member of the Board is the owner of this company. The total amounts paid by the Department to Grim Printing for operating supplies were immaterial in total for the year ended November 30, 2005.

Shepherd Tri-Township Fire Department
Budgetary Comparison Schedule for the General Fund
For the Year Ended November 30, 2005

	Budget Amounts		Actual	Variance Between Actual and Final Budget
	Original	Final		
Revenues				
Charges for services	\$78,000	\$81,154	\$81,153	(\$1)
Contributions from local units	144,815	146,415	146,415	-
Interest	2,000	3,200	3,140	(60)
Gain on investment	2,000	2,150	1,260	(890)
Other revenues	1,100	1,840	1,355	(485)
Total revenues	227,915	234,759	233,323	(1,436)
Expenditures				
Public Safety				
Building and grounds	3,750	3,750	1,884	1,866
Computer software support	400	1,000	1,000	-
Gas and fuel	3,500	5,700	5,464	236
Insurance	38,000	39,600	32,228	7,372
Miscellaneous	8,660	2,405	1,525	880
Professional services	3,925	4,100	3,614	486
Repair and maintenance	20,000	20,820	19,635	1,185
Salaries and payroll taxes	98,225	102,246	102,198	48
Supplies	13,378	13,378	10,690	2,688
Small equipment	15,281	14,066	13,839	227
Training	5,250	7,250	6,805	445
Uniforms	8,000	9,500	9,332	168
Utilities	7,605	8,805	8,241	564
	225,974	232,620	216,455	16,165
Excess of revenues over (under) expenditures	1,941	2,139	16,868	14,729
Fund balance - beginning of year	144,400	144,400	144,400	-
Fund balance - end of year	\$146,341	\$146,539	\$161,268	\$14,729

See accompanying notes to financial statements



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

Board of Directors
Shepherd Tri-Township Fire Department

We have audited the financial statements of each major fund of Shepherd Tri-Township Fire Department (the Department) as of and for the year ended November 30, 2005, which collectively comprise the Department's financial statements and have issued our report thereon dated January 11, 2006. The report on these financial statements was qualified because it is the Department's policy to report their financial statements using the minimum accounting practices prescribed by the Michigan Department of Treasury. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted certain matters that we reported to management of the Department, in a separate letter dated January 11, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 11, 2006



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Management Letter

LOCAL AUDIT & FINANCE DIV.

Members of the Board
Shepherd Tri-Township Fire Department
Shepherd, Michigan

In planning and performing our audit of the financial statements of the Shepherd Tri-Township Fire Department for the fiscal year ended November 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated January 11, 2006 on the financial statements of the Shepherd Tri-Township Fire Department.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience.

Sincerely,

Roslund, Prestage & Co, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 11, 2006

Organizational Structure

The size of the Department's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board remains involved in the financial affairs of the Department to provide oversight and independent review functions, including the review of paid invoices, cancelled checks, and bank statements.

Evaluate Investment

During the audit it was noted that the Department carries on their financial statements an investment which was donated to them many years ago. This investment is in a mutual fund which has been rated at below average for overall performance. We believe that the Department should review their holding in this investment and make a determination as to whether to 1) keep the funds invested in the current holding or 2) investigate other investment options and determine whether to redirect funds into holdings that may yield a higher return, within the parameters of Public Act 20 of 1943 (Investment of Surplus Funds of Political Subdivisions).